



The Voice of Small Business

Charles S. Owens, State Director
National Federation of Independent Business
115 W. Allegan / Suite 310
Lansing, MI 48933
(517) 485-3409

**Testimony in Support of House Bill 4361 and 4362
Governor Snyder's Business and Income Tax Proposal
Before the House Tax Policy Commerce
Wednesday, March, 9, 2011**

My name is Charlie Owens and I am the State Director for the National Federation of Independent Business, an advocate for Michigan small businesses owners.

We are here today to support the tax proposal as put forth by Governor Snyder in his recent budget presentation. Specifically, the Corporate C Income Tax Proposal as a replacement for the current Michigan Business Tax (MBT). As a point of information, we surveyed our members on this issue with the following result: 71 percent of members responding supported the corporate income tax proposal, 11 percent did not and the remaining 18 percent were undecided.

The Michigan Business Tax was passed on June 28, 2007 and it was a compromise between the Senate proposed Business Economic Stimulus Tax or "BEST", the proposed House tax plan and pieces and parts of other proposals thrown in for good measure. A better name for the tax would have been the "FrankenTax" as it bore more of a resemblance to the stitched together monster of the folk tale than good tax policy. To make matters worse, in December of 2007, the just passed MBT mess was amended to include a 21.99 percent surcharge to replace the revenue from the repeal of an unpopular and bungled services tax passed in the fall of 2007. The MBT was a product of political expedience, not good economic development policy.

The bottom line is that the Michigan Business Tax is no improvement over the Single Business Tax (SBT) it replaced and for many businesses it is worse. It is a complicated tax that is arbitrary and capricious in how it treats different segments of Michigan's business community. It taxes many small businesses that already pay once through the personal income tax and for a number of large businesses in the state with no tax liability, it actually gives them money back through refundable credits. For almost every business that pays the tax, and did not get a carved out credit, it is a confiscatory nightmare with many of our members reporting tax increases of double to tenfold over the Single Business Tax they paid in prior years.

We have had a number of our small business members tell us that they have laid off employees or put-off hiring new employees in order to meet the higher tax liability imposed by the Michigan Business Tax.

As proposed, Governor Snyder's Corporate Income Tax would only apply to those businesses that are "C" corporations. Many small businesses that are partnerships, sole proprietors, Sub S corporations, or LLC's would be exempt from the tax and continue to pay their business taxes through the personal income tax. For many, this would end the "double taxation" that currently exists when a business has to pay business taxes through both the personal income tax and the Michigan Business Tax. Small Businesses in Michigan that paid their business taxes through the state income tax account for almost \$800 million of income tax revenue.

To conclude, the Michigan Business Tax is a jobs killer and a disincentive to do business in this state. To be blunt, it marks our state as having a hostile, anti-business tax climate. Governor Snyder has recognized that fact and has put forward a proposal that seeks to address this problem. The Governor's proposal seeks to create a tax that is equitable across the board for all businesses, is reasonable when compared to other states and is familiar to businesses looking to locate here.

We urge members of this committee to support the Governor's proposal and House Bills 4361 and 4362.

Attachments:

- Small business taxes paid through state personal income taxes
- SBA Michigan profile excerpt
- Letter from Tom Zimmerman, Spectrum Automation
- Letter from Jim Swain, Courtesy Car and Truck

Small Business Taxes Paid Through State Income Tax

Assumptions that small businesses exempted from Governor Snyder's proposed Corporate C Tax (because they are not "C" corporations) do not pay "business taxes" are incorrect.

For these businesses, tax on business income is paid via the state income tax where business income is reported – typically derived from federal forms such as Schedule C.

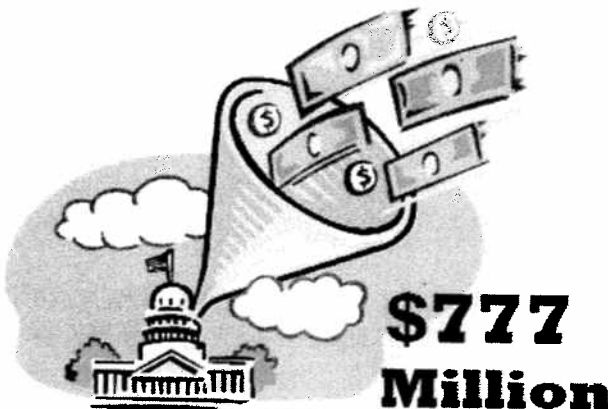
Michigan small businesses will pay \$777 million in taxes on business income reported on state income tax forms. In addition, they are **DOUBLE TAXED** if they have to pay the Michigan Business Tax in addition to the personal income tax.

Source: Anderson Economic Group, LLC – State and Local Taxes Paid by Michigan Business.

These business also pay property taxes, payroll taxes, and sales taxes, licensing fees etc.

Small Business Facts

How much do Michigan businesses pay on business income reported on state personal income taxes?



Source: Anderson Economic Group, LLC



Michigan Small Business Profile

Advocacy: the voice of small business in government

Table 1: Firms and Employment in Michigan by Industry and Firm Size, 2008
(Nonfarm, Thousands)

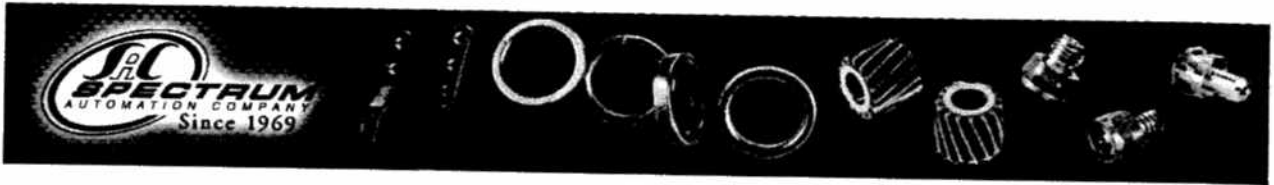
Industry	Nonemployer Firms	Employer Firms			Employment		
		Total	1-19 Employees	1-499 Employees	Total	1-19 Employees	1-499 Employees
Total	640.7	182.6	158.6	179.5	3,636.2	661.9	1,867.9
Forestry, etc. and agriculture support	5.5	0.6	0.5	0.6	3.0	1.8	2.9
Mining	2.6	0.4	0.3	0.3	5.7	1.1	3.0
Utilities	0.4	0.1	0.0	0.1	D	0.2	1.6
Construction	78.6	21.5	20.2	21.5	146.0	63.6	122.4
Manufacturing	11.1	12.2	8.3	11.6	560.3	49.7	265.4
Wholesale trade	11.2	9.8	7.6	9.2	170.6	32.8	101.6
Retail trade	58.5	24.1	21.6	23.7	466.4	91.7	192.4
Transportation and warehousing	26.9	4.7	3.9	4.5	103.9	13.1	40.8
Information	7.8	1.7	1.3	1.6	76.7	5.6	17.7
Finance and insurance	18.3	7.4	6.5	7.2	170.3	22.3	62.4
Real estate and rental and leasing	49.9	6.4	5.8	6.3	53.2	17.5	36.8
Professional, scientific, and technical svcs.	79.4	20.7	18.6	20.3	256.3	62.3	148.9
Management of companies and enterprises	--	1.1	0.1	0.7	114.5	0.4	14.4
Admin., support, waste mgt., remed. svcs.	54.9	10.7	8.7	10.4	306.3	29.9	158.7
Educational services	17.3	2.0	1.6	1.9	67.6	7.2	32.2
Health care and social assistance	73.3	20.6	17.9	20.4	558.6	93.8	269.4
Arts, entertainment, and recreation	29.5	3.4	2.9	3.4	49.8	11.4	37.2
Accommodation and food services	8.7	15.1	11.8	14.9	340.2	69.2	212.5
Other services (except public admin.)	106.9	22.1	20.5	22.0	162.1	87.8	146.8
Unclassified	--	0.6	0.6	0.6	0.7	0.6	0.7

Source: U.S. Dept. of Commerce, Bureau of the Census, Statistics of U.S. Businesses. (See www.sba.gov/advocacy/849/12162 for data from other years, and for starts, closures, job creation and destruction by industry and by size category.)

SBA Michigan Profile 2010

	Total Net New Jobs	1-4	5-9	10-19	20-99	100-499	<500	500+
2003 - 2004	9,268	32,076	11,987	5,909	-4,326	-7,582	38,064	-28,796
2004 - 2005	-99,923	20,279	-3,250	-14,522	-32,881	-63	-30,437	-69,486
2005 - 2006	33,930	22,051	-277	420	8,047	-4,121	26,120	7,810
2006 - 2007	-128,786	19,366	-5,347	-11,596	-23,533	-34,749	-72,927	-55,859
Total	-185,511	93,772	3,113	-19,789	-52,693	-46,515	-39,180	-146,331
Total <20	77,096							
Total <100	24,403							
Total >100	-232,026							

If every small business only hired one employee that would equal 182,000 jobs in Michigan



Members of the House Tax Policy Committee:

My name is Tom Zimmerman and I am the owner of Spectrum Automation located in Livonia, Michigan. In the interest of full disclosure, I am also the Chair of the Leadership Council for the National Federation of Independent Business (NFIB) in Michigan.

Please accept my apology for being unable to testify in person in front of your committee today. As you can imagine, I want to take every opportunity to increase sales for my business during these difficult times. An opportunity to do so is the reason I cannot come to Lansing today.

Spectrum Automation Company is a Michigan Corporation and a "C" corporation founded in 1969. With principal offices in Livonia, MI, the Company designs, develops, and manufactures specialty parts feeding and material handling systems for such diversified fields as automotive, farm implement, fastener, medical, hardware, food and beverage, aerospace and munitions industries.

We employ twenty workers at our facility and we offer our employees competitive wages and benefits. It is with pride that I tell you that many of our employees have been with us for more than twenty years and are highly skilled machinists and trade craftsman.

As a manufacturer in Michigan I do not think I have to tell you how hard it has been staying in business these past years. However, we have made the sacrifices necessary to survive, and I am also proud to tell you that we have been able to keep all of our employees with us during this time – our employees are the key to our success and we value them greatly.

We saw our tax liability to the state increase as a result of the passage of the Michigan Business Tax (MBT). We found this to be very frustrating and contradictory to the claims being made that the state was doing everything to create jobs. Please forgive me if I seem preachy here, but you do not create jobs – I do. So when you make my task of creating jobs more difficult by increasing my taxes, I hope you can understand my confusion. To be concise: we paid less tax under the Single Business Tax than the Michigan Business Tax that replaced it.

We did a quick analysis of our tax liability under the Corporate C tax as proposed by Governor Snyder, and we found that our business taxes would be significantly less. That is more like it, that will help me – thank you. I hope it passes as proposed. As a member of the National Federation of Independent Business (NFIB) I voted to support the Governor's proposal on my NFIB member survey.

I hope you find this information helpful and I again am sorry I could not be there in person to answer any questions.

Respectfully Submitted
Tom Zimmerman, President
Spectrum Automation, Livonia, MI

March 23, 2009

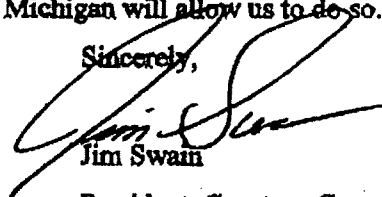
To the Michigan Dept. of Treasury,

My name is Jim Swain, President of Courtesy Car and Truck (EIN # 38-3508988). Due to the decrease in business and the very large increase in my Michigan business tax (950%), I absolutely cannot send you money for the tax that I owe, under the current MI business tax that is currently the law. I understand that I owe you this tax and I am very sorry that I cannot pay you. I have my help down to 6hrs. per day and at one time employed as many as 19 people. I am now down to 12 employees.

My customer base is leaving the state faster than I can find new customers. I believe that there is no work for them because you are taxing the businesses to death and the businesses are leaving the state or going out of business all together.

In 2007 my federal taxes were \$570.00 and state taxes were \$1,825.00. In 2008, my federal taxes were \$2,211.00 and state taxes were \$17,412.00, an increase of 950% at the state level alone! I only wish that I had that much more business for such a large increase in my tax. Please accept my check for \$1,000.00 and I will pay you the balance as soon as the economy in the state of Michigan will allow us to do so.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Swain", is written over the typed name.

Jim Swain

President, Courtesy Car and Truck